

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Tax Rate Review Committee
July 25, 2007

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The Tax Rate Review Committee met at 1:30 p.m. on Wednesday, July 25, 2007, in Room 1507 of the State Capitol, Lincoln, Nebraska. Members present: Senator Lavon Heidemann; Senator Mike Flood; Senator Ray Janssen; Tax Commissioner Douglas Ewald. Members absent: Senator L. Patrick Engel. Also present: Michael Calvert, Tom Bergquist. []

SENATOR HEIDEMANN: Start the Tax Rate Review Committee meeting, and we'll just turn it over to Mike. []

MICHAEL CALVERT: (Exhibit 1) Okay. The packet I'll be referring to is the one mailed to your offices. I've got some extra copies. Under 77-2715.01, this is a required meeting in July and there's another meeting required in November, two meetings each year of this committee, to assess really the financial condition of the state's General Fund, and then the statutes do provide for the committee the option of determining how we are doing financially and ask, if need be, the Governor to consider a special session if financial conditions warrant. The material I'm referring to, I'll start under the summary on page...marked as page 1. This is a General Fund financial status and discussion of the outlook for the General Fund. It is inclusive of actual results through June 30, 2007. So we've included the actual revenues through the end of the most current fiscal year we completed, and it is based on the sine die financial status during the 2007 Session. Actual receipts for the fiscal year were about \$47.3 million above the forecast used at sine die. The adjusted revenue growth turned out to be, for fiscal '06-07, about 7.4 percent, as compared to an anticipated 5.7 percent growth calculated in the April forecast. In reality, the General Fund financial status really does not change because of this additional revenue because, by law, that additional \$47.3 million is to be transferred to our Cash Reserve Fund. This is in addition to \$144.1 million that was already estimated to be above the forecast at sine die. So in total, \$191.4 million was transferred to the Cash Reserve Fund just in the last week, if I recall correctly. The cash position of the Cash Reserve Fund, thus, will reach about \$700 million in July of 2007. This was reported in the newspapers. However, we should point out that that overstates the situation because in current law there are some...there are transfers over the next several years, net, reducing the Cash Reserve Fund. So that, in effect, leaves a balance, unobligated, of about \$483 million in the Cash Reserve Fund--still a substantial sum and, quite frankly, I think is the highest I think the Cash Reserve Fund, unobligated balance, has ever been. Fiscal '06-07 is the third consecutive fiscal year where actual receipts exceeded the certified forecast, and it's the fourth consecutive year where receipts exceeded the last forecast. This is a cycle of about four years. If you look in the last 25-year history, a pattern of where you'll see blocks of time, consecutive years, about 4 or 5 years, where we exceeded forecasts, and we're approaching that part of the cycle where we're likely going to start seeing forecasts overshooting the actual estimates here in the next few years. Current status is based on the existing revenue

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forecasts of '08-09. There will be a change in October, when the Forecast Board again meets, and they will revise estimates for the current year and then the next year. I wouldn't be surprised if they might be looking at a small boost in the current year just simply based on the fact that we are \$47 million ahead in the current year. So that may influence and raise the base a little bit for the current year, but I wouldn't expect a substantial change. The change in the financial status is listed on the bottom of page 1, on the table, and you'll see little net change in terms of the General Fund financial status. We started...we finished, at sine die, for the '08-09 biennium just slightly above our minimum reserve requirement. We were about \$310,000 above. There were some changes due to carryover obligations, additional net receipts which were ultimately transferred out; an accounting adjustment of about \$4.6 million, and typically we always have year-end accounting adjustments. There is an assumed lapse of about \$10 million. Essentially what that is, is, of the General Fund appropriation for '06-07, about \$10 million is projected to be unspent and unobligated. So, in effect, the obligation goes away and it becomes a free and clear resource to the General Fund balance. There's a slight change in the reserve calculation due to the adjustments that occurred above. Bottom line, net, \$103,000 above the minimum reserve. []

CHUCK HUBKA: Senator? []

SENATOR JANSSEN: Yeah. []

CHUCK HUBKA: Okay. []

SENATOR JANSSEN: I can hear him. []

MICHAEL CALVERT: Hello, Senator. Michael Calvert here. []

SENATOR JANSSEN: Hi, Mike. []

MICHAEL CALVERT: Thus, the overall picture really is little changed. The details are laid out on page 2 for the General Fund financial status. The reserve requirements are met on line 24, with a slight negative in 2010-2011, but that's a long-range projection and is not a matter of actual appropriations or law. So the relevant number really is that first box number. So we are meeting our minimum reserve requirement. One thing I would point out, in terms of outlook on line 34, page 2, the structural revenue versus spending, there is a slight negative beginning to show up, if you can call \$50-\$60 million slight, but if there are some revenue changes in '07-08, that could narrow a little bit. It's just a little bit of a red flag, but I'd say overall the financial picture is quite good. []

SENATOR JANSSEN: Is that on the spending side? []

MICHAEL CALVERT: Sorry, Senator? []

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SENATOR JANSSEN: Is that...you say that it's a little negative. []

MICHAEL CALVERT: Oh, the structural balance? []

SENATOR JANSSEN: Is that on the spending side? []

MICHAEL CALVERT: What it does, Senator, is it takes your ongoing revenue stream, your recurring revenues,... []

SENATOR JANSSEN: Yeah. []

MICHAEL CALVERT: ...and then it compares it to your ongoing expenditures. And if expenditures are greater than revenue in any one year, you show a negative structure balance. []

SENATOR JANSSEN: Yeah, (inaudible) that (inaudible). []

MICHAEL CALVERT: And all that is saying is, in those particular years your ongoing spending base is a little bit higher than your ongoing revenue base in that year. []

SENATOR JANSSEN: So that is...that is on the spending side, right? I mean your (inaudible). []

MICHAEL CALVERT: Well, it's both revenue...both revenue. []

SENATOR JANSSEN: (Inaudible). []

MICHAEL CALVERT: And it comes back to a positive in 2010-2011 based on the current projections. []

SENATOR JANSSEN: Oh, okay. All right. []

MICHAEL CALVERT: So in a short term, there's a slight imbalance in terms of annual revenues being slightly below annual expenditures, but part of that negative is also in the next budget period. It's not in the current budget period. []

SENATOR JANSSEN: Okay. []

MICHAEL CALVERT: And that can...that can readily change. And even though it's \$50-\$60 million, it's a manageable issue. []

SENATOR JANSSEN: Yeah. It's right around that \$50 million to \$60 million, right? []

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MICHAEL CALVERT: Right. []

SENATOR JANSSEN: Okay. Fine. []

MICHAEL CALVERT: There are a number of positives. We have a balanced budget in the foreseeable future under current assumptions. Revenue growth estimates are fairly modest with or without the likely adjustments that might occur in this year. Expenditure growth remains fairly modest in the current budget biennium, averaging about 5.4 percent. And we have a substantial backstop. We have an unobligated Cash Reserve Fund balance of \$483 million. The negatives, the structural imbalance I pointed out, it's relatively small, something of a warning signal. Where we are in the cycle, we're in the third year above certified forecasts. Error has a tendency to turn negative, perhaps in '08-09, but that's a little bit less certain. And then, you know, what I call the law of big numbers; when I first started here a 1 percent error on revenue \$8 million. Well, 1 percent is going to be about \$40 million here before too long. So... []

SENATOR JANSSEN: Little change. []

MICHAEL CALVERT: Yeah, there's been a little bit of change, but it's not my fault, Senator. (Laughter) []

SENATOR JANSSEN: (Inaudible). []

MICHAEL CALVERT: Revenue growth in the out biennium is above the average rate of about 5.4 percent. If you look at the historical pattern, revenue growth in the out biennium is about 6.5 percent. But if you at those years where we've been above the average growth rate, those years have averaged about 7.4 percent. So 6.5 is not on the high side in terms of some of our high growth experience, so that's a fairly moderate estimate, in my estimation, and then there's always... []

SENATOR JANSSEN: (Inaudible). []

MICHAEL CALVERT: Pardon? []

SENATOR JANSSEN: That's a safe estimate. []

MICHAEL CALVERT: I think it's pretty reasonable, yes, sir. []

SENATOR JANSSEN: Uh-huh. []

MICHAEL CALVERT: And, you know, there's always the element of uncertainty. There are some federal changes that could creep into our tax code. I just got something today

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on the possibility of a 61-cent increase on cigarette taxes. Well, even though that directly does not connect into our state revenue stream, it will change consumption patterns and likely will decrease the amount of cigarette taxes we'll collect. []

SENATOR JANSSEN: That's true. []

MICHAEL CALVERT: But that has not passed. We don't know that it will pass, but I know the Department of Revenue has looked at estimates. We've looked at some estimates and they're comparable. []

SENATOR JANSSEN: Uh-huh. Okay. []

MICHAEL CALVERT: So overall, positives really mitigate the negatives, in my estimation. Spending growth will have to probably remain modest. Revenue growth is generally modest. And errors will occur, but they shouldn't be terribly disruptive, and ultimately we have a substantial balance in the Cash Reserve Fund. []

SENATOR JANSSEN: Good. []

MICHAEL CALVERT: So that's it. Questions? []

SENATOR HEIDEMANN: Any questions? []

SENATOR JANSSEN: I don't have any, Mike, so I'm going to get off the phone... []

MICHAEL CALVERT: Okay. []

SENATOR JANSSEN: ...before my battery goes dead. []

MICHAEL CALVERT: Thanks for joining us, Senator. []

SENATOR JANSSEN: You're welcome. Good-bye. []

MICHAEL CALVERT: Bye. []

SENATOR HEIDEMANN: That's it on your side? []

MICHAEL CALVERT: That's it on my side. []

SENATOR HEIDEMANN: Then I guess we're going to entertain any motions, if anyone thinks we need to do anything to follow up or a special session. []

SENATOR FLOOD: I'll make that motion. There's no reason to raise taxes and call a

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special session. I approve that we make a motion to take no action. []

SENATOR HEIDEMANN: Would no action just be fine? []

MICHAEL CALVERT: That's fine. Uh-huh. Absolutely. []

SENATOR HEIDEMANN: So if no one makes a motion, we're going to accomplish what you want to do. []

MICHAEL CALVERT: Adjourning accomplishes the same thing. []

SENATOR HEIDEMANN: Yeah. So seeing no other motions, I make a motion to adjourn. []

Chairperson

Committee Clerk